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Cotton and Products

Annual

2005

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Report Highlights:
With expectations that Indonesian textile exports will improve their competitive position after facing strong competition with other textile exporting countries, cotton imports are estimated to increase by 15 percent to 2.2 million bales in MY04/05, however they are forecast to remain flat in MY05/06. The market share of U.S. cotton has continued to expand reaching about 31 percent of the total market. The position of U.S. cotton will continue to depend on the prices, availability and additional technical service provided to the sector.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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I. SITUATION AND OUTLOOK

Although Indonesian textile companies continue to face ongoing economic problems, in general, prospects for the sector are still encouraging. Exports of Indonesian textiles and textile products in 2004 were about US$ 7.3 billion, up 5 percent from 2003, and textile exports are still the largest non-oil export-based contributor to national income. Most textile companies are family business operations; most of them will stay in the business rather than move to other sectors during times of low profits. The Ministry of Trade and the Ministry of Industry oversee Indonesia's textile operations. It is hoped for by textile sector operators that bureaucracy and policies will be improved to support competitiveness. However, the new Administration's decision to increase fuel prices, which implies an increase in prices of a wide range of production costs, and also a lack of policy coordination by new officials have been criticized by the textile industry.

Production

Production of cotton in Indonesia is still not significant. Cotton is produced mainly by smallholders and accounts for less than one percent of domestic consumption. Due to climatic and soil limitations, cotton yields are low and unlikely to be increased without any new technology. For the last few years, the Government of Indonesia and the private sector have tried to promote cotton production, sponsoring cotton farmers with seeds and capital. However, this program has not been successful as yields remain low and quality is poor. As a result, MY05 production is forecast to remain stagnant at around 7,000 tons. Ongoing public controversy about approval for planting Bt cotton, which was previously approved by the Ministry of Agriculture, is hindering advances in new cottonseed development.

Consumption

Like most business sectors in Indonesia, which are struggling in the uncertain business climate, many textile companies faced "ups and downs" last year. Although the rupiah recovered somewhat (stable at Rp 8,900/US$ 1), in general, last year was not a good year particularly for the least productive operators in the Indonesian textile sector. Some mills had to shut down their operations and some had to significantly reduce their capacity utilization. With a total capacity of 7.5 million spindles, Indonesian textile mills are now running at about 80 percent of capacity. Competition among textile exporting nations, especially with China, and also smuggling of imported textile products, has hurt the industry. Furthermore, the weakening of Indonesian consumers' purchasing power has limited domestic demand growth.

Nonetheless, most mills have been successful in finding ways to survive and to compete, especially export-oriented companies. Some mills changed their strategy from operating in all sectors (integrated spinners/weavers/garment fabricators), to focusing on one or two sectors and outsourcing their other needs. Some are concentrating in high-end markets and looking for new markets abroad instead of attempting to compete on a price basis with China, India and Pakistan.

Most textile companies face similar constraints: difficulty in obtaining credit and trade financing from banks, increasing operational costs (oil prices, electricity, terminal handling charges, etc.) and a dependency on imported raw materials such as cotton, yarn, fabric and machinery.

Thus, MY03 (August 03 – July 04) cotton consumption has been revised down about 14 percent to 1.90 million bales. With expectations that the export markets are growing slightly for MY04, the total cotton consumption is estimated to increase about 15 percent to 2.2 million bales. For MY05, consumption is forecast to be on par with MY04.

Based on data released by the Directorate for Textile Industry, Ministry of Industry, yarn and fabric production grew by 3 percent in 2004. The domestic yarn market remains depressed, in part because low cost Pakistani yarn has become a feature in the market. Sixty percent of yarn production is for domestic producers of fabric and garments, most of which are subsequently exported. The production of garments increased about 11 percent in 2004.

Spinners continue to keep inventory at a minimum level; in general they have one or two months of cotton in stock. Most mills are currently not able to plan much in advance for cotton use and purchase. High cotton prices, the fluctuating rupiah and also uncertain orders lead some mills to pre-purchase cotton.

Trade

The Indonesian textile industry depends almost entirely on imported cotton. Cotton imports were down in MY03 to about 1.9 million bales (around 416,000 MT). For 2004 imports totaled 2.1 million bales, 13 percent lower than the previous year. Traders predict that total imports will increase about 15 percent for MY04, which would equal about 2.1 million bales. The preliminary data show that imports have reached around 1 million bales the first five months of MY04 (August – December 04), up about 25 percent compared to the same period last year. Supported by growth in exports but held back by uncertainty about the future, cotton imports should be flat in MY05 at 2.1 million bales. Import growth could trend upwards if world oil prices affect the prices of polyester / synthetic yarn.

The outlook for U.S. cotton is positive due to the combination of competitive U.S. prices and increased Indonesian demand for cotton used for exporting products such as denim. Recent visits to textile mills in the major producing areas reveal that there is adequate demand for U.S. cotton. However, shipping time from the U.S. was cited as a barrier to trade. Australia, China and other exporting countries offer more flexible contracts and more frequent shipping schedules. During 2004, U.S. cotton was estimated to have been 31 percent of the total market share, while Australia's share fell to 20 percent. Brazil, India and African countries have increased their total exports to Indonesia. The position of U.S. cotton will continue to depend on the prices, availability and additional technical services provided to the Indonesian textile sector.

Imports of cotton yarn declined about 30 percent in 2004, however imports of cotton fabrics were up 7 percent. Pakistan and China were still the major suppliers of cotton yarn to Indonesia (about 30 and 20 percent market share), while China and Hong Kong were the major suppliers of cotton fabric. The U.S. ships almost no cotton yarn or fabric to Indonesia. Cotton yarn exports declined about 15 percent in 2004. As yarn production is growing, yarn exports are expected to recover in 2005. Exports of cotton fabric were stable.

The major markets for Indonesia's cotton yarn exports are Japan, Hong Kong, China and Korea, with only about 4 percent destined to the U.S. It is expected after the end of the Multi-Fiber Agreement quotas, more Indonesian yarn and fabric will enter the U.S. market. Italy, Bangladesh, Japan and Hong Kong are the major markets for Indonesian's cotton fabric, while U.S. is the first destination for garment products.

Although the GSM-102 credit guarantee program played a minor role in facilitating transactions for U.S. cotton imports in MY03, traders still hope to purchase cotton under the program. Total registration for MY03 was about $ 34.20 million.

Investment

Most companies have realized that they need to upgrade their equipment and facilities in order to produce high quality products efficiently. Nevertheless, expansion is on hold. Lack of local financing resources remains a significant constraint. Recently, the GOI through the Ministry of Industry and the Central Bank, held discussions with local banks, to get their commitment to support restructuring and provide banking sector support for the textile sector.

Other Issues Impacting Indonesian Textile Producers

At the end of 2004 the GOI unsuccessfully lobbied to delay implementation of removal of international textile quotas. The GOI remains concerned about declining market share for Indonesian textile products in the United States and competition from China. However, many local companies view the non-quota system as creating opportunities for expansion to penetrate the US markets and as an incentive to improve efficiency, quality, and productivity.

Smuggling of imported textile products and second hand garments continues to be a serious issue for the local textile industry. There is a great deal of demand for these lower-priced products in Indonesia, giving traders strong incentives to import the products. New documentation requirements to verify the types of products imported have been largely ineffective in stopping these imports.

Although there has not been much discussion of the VAT in the media, the application of VAT is still discouraging mills to expand export-oriented production. The process of getting a refund payment based on exports takes longer than expected, often the result of bureaucratic inefficiency. There were no changes on import duties of cotton, cotton yarn, and fabric in 2005.

In order to compete with China in the domestic market, the textile association is proposing that the GOI increase the import tariff for garments up to 25 percent. The industry also expects the U.S. to impose safeguard tariffs for China, which they believe will support further Indonesian penetration of the market.

II. STATISTICAL TABLE

Table 1. PSD COTTON (HS code 5201, 5202, and 5203), in Metric Tons

PSD Table						
Country	Indonesia					
Commodity	Cotton				(HECTARES)	(MT)
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		**08/2003**		**08/2004**		**08/2005**
Area Planted	0	0	0	0	0	0
Area Harvested	12,000	10,000	12,000	10,000	0	10,000
Beginning Stocks	87,962	87,968	80,777	75,727	106,251	76,427
Production	8,056	7,000	8,056	7,000	0	7,000
Imports	468,112	416,000	511,657	478,000	0	480,000
MY Imp. from U.S.	0	141,154	0	155,000	0	155,000
TOTAL SUPPLY	564,130	510,968	600,490	560,727	106,251	563,427
Exports	4,355	4,355	4,355	4,300	0	4,300
USE Dom. Consumption	468,112	420,000	478,998	470,000	0	470,000
Loss Dom. Consumption	10,886	10,886	10,886	10,000	0	10,000
TOTAL Dom. Consumption	478,998	430,886	489,884	480,000	0	480,000
Ending Stocks	80,777	75,727	106,251	76,427	0	79,127
TOTAL DISTRIBUTION	564,130	510,968	600,490	560,727	0	563,427

Table 2. PSD COTTON (HS code 5201, 5202, and 5203), in Bales

PSD Table				Conversion: 0.00459292		
Country	Indonesia			Units : HA/1000 Bales		
Commodity	Cotton					
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		**08/2003**		**08/2004**		**08/2005**
Area Planted	0	0	0	0	0	0
Area Harvested	55	46	55	46	0	46
Beginning Stocks	404	404	371	348	488	351
Production	37	32	37	32	0	32
Imports	2,150	1,911	2,350	2,195	0	2,205
MY Imp. from U.S.	0	648	0	712	0	712
TOTAL SUPPLY	2,591	2,347	2,758	2,575	488	2,588
Exports	20	20	20	20	0	20
USE Dom. Consumption	2,150	1,929	2,200	2,159	0	2,159
Loss Dom. Consumption	50	50	50	46	0	46
TOTAL Dom. Consumption	2,200	1,979	2,250	2,205	0	2,205
Ending Stocks	371	348	488	351	0	363
TOTAL DISTRIBUTION	2,591	2,347	2,758	2,575	0	2,588

Table 3. Import Trade Matrix (Marketing Year)

Import Trade Matrix					
Country:	Indonesia			Units:	1,000 MT
Commodity:	**Cotton**				
Time Period	**Aug - Jul**				
Imports for:	**2002**		**2003**		**2004**
U.S.	215	U.S.	141	U.S.	57
Others		Others		Others	
Australia	290	Australia	86	Australia	45
China	43	Ivory Coast	18	Brazil	31
Benin	18	South Africa	17	South Africa	14
Ivory Coast	14	Brazil	15	Pakistan	9
Pakistan	12	India	11	Paraguay	5
Syria	11	Benin	11	Zimbabwe	5
American Samoa	11	China	9		
South Africa	10	Tanzania	8		
Tanzania	8	Burkina Faso	8		
Central African Rep	7	Mali	7		
Total for Others	424		190		109
Others not Listed	71		85		45
Grand Total	710		416		211

Source: BPS Statistics Indonesia. For MY03, was only from Aug – Dec 2004

Table 4. Import Trade Matrix (Calendar Year)

Import Trade Matrix					
Country	Indonesia			Units:	1,000 MT
Commodity	**Cotton**				
Time Period	**Jan - Dec**				
Imports for:	**2002**		**2003**		**2004**
U.S.	198	U.S.	184	U.S.	143
Others		Others		Others	
Australia	241	Australia	170	Australia	91
Ivory Coast	23	China	33	Brazil	40
China	23	Ivory Coast	13	South Africa	25
Benin	17	Benin	12	Pakistan	13
American Samoa	16	South Africa	10	India	13
Syria	15	American Samoa	9	Benin	10
South Africa	13	Tanzania	9	Syria	10
Brazil	11	Brazil	9	Tanzania	8
Pakistan	11	Pakistan	9	Togo	8
Hong Kong	7	Central African	7	Zimbabwe	8
Total for Others	377		281		226
Others not Listed	58		66		89
Grand Total	633		531		458

Source: BPS Indonesia

Table 5. Actual Textile Production in Calendar Year 2002 – 2004 (in ton)

Products	2002	2003	2004
MANMADE FIBERS	777,395	776,200	796,329
YARNS	1,649,445	1,646,911	1,692,201
FABRICS	1,275,485	1,273,525	1,312,106
GARMENTS	462,343	461,632	516,987
OTHER TEXTILE PRODUCTS	35,339	35,284	43,671

Source : “Preliminary Fact and Figures Indonesian Textile Industry 2004”; Ministry of Industry

Table 6. Indonesian Textile and Textile Product Exports (CY 2002 – 2004)
Volume: in ton; Value: in US$ 1,000

PRODUCTS	2002		2003		2004*	
	Volume	Value	Volume	Value	Volume	Value
FIBERS	208,537	181,958	198,258	136,318	152,237	197,198
YARNS	762,313	1,229,482	770,642	1,208,653	720,801	1,480,764
FABRICS	367,857	1,404,354	381,151	1,523,387	339,036	1,420,162
GARMENTS	328,787	3,805,458	332,211	3,926,798	324,926	4,289,683
OTHER TEXTILE	91,181	267,306	90,982	238,331	89,485	259,644
TOTAL	1,758,675	6,888,559	1,773,244	7,033,487	1,626,485	7,647,451

Source : "Preliminary Fact and Figures Indonesian Textile Industry 2004"; Ministry of Industry
*Estimation

Table 7. Indonesian Textile and Textile Product Imports (CY 2002 – 2004)
Volume: in ton; Value: in US$ 1,000

PRODUCTS	2002		2003		2004*	
	Volume	Value	Volume	Value	Volume	Value
FIBERS	806,846	921,617	769,207	948,933	641,851	955,539
YARNS	83,805	220,398	79,520	190,450	109,823	245,610
FABRICS	116,160	588,650	87,935	459,166	98,756	433,505
GARMENTS	11,647	27,636	4,268	14,007	3,225	28,244
OTHERS TEXTILE	30,302	66,267	21,350	60,566	27,239	57,662
TOTAL	1,048,760	1,824,568	962,280	1,673,121	880,893	1,720,560

Source: "Preliminary Facts and Figures Indonesian Textile Industry 2004"; Ministry of Industry
* Estimation

Table 8. Indonesian Cotton Exports (MY 2002 – 2004)
HS Code 5201, 5202, 5203

Export Trade Matrix					
Country	**Indonesia**				
Commodity	**Cotton**			Units: 1,000 MT	
Time Period	**Aug - Jul**				
Exports for:	**2002**		**2003**		**2004**
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Taiwan	7	Hong Kong	8	Japan	2
China	6	Taiwan	7	Taiwan	2
Hong Kong	6	China	5	Hong Kong	1
Japan	3	Japan	3	China	1
India	2	Vietnam	2	India	1
Italy	2	Italy	1	Italy	1
Philippines	2	Thailand	1		
Thailand	1	Philippines	1		
Vietnam	1				
Total for Others	30		28		8
Others not Listed	3		4		4
Grand Total	33		32		12

Source: BPS Statistics Indonesia. For MY03, was only from Aug – Dec 2004

Table 9. Indonesian Cotton Yarn Exports (CY 2002 – 2004)
HS Code 5204, 5205, 5207

Export Trade Matrix					
Country	**Indonesia**				
Commodity	**Cotton Yarn**			Units: 1,000 MT	
Time Period	**Jan - Dec**				
Exports for:	**2002**		**2003**		**2004**
U.S.	3	U.S.	5	U.S.	5
Others		Others		Others	
Japan	17	Japan	22	Japan	19
Hong Kong	16	China	19	Hong Kong	19
Rep. of Korea	14	Hong Kong	17	Korea	11
China	11	Rep. of Korea	13	China	11
Taiwan	6	Malaysia	6	Taiwan	5
Malaysia	6	Sri Lanka	5	Sri Lanka	5
Nigeria	5	Philippines	4	Malaysia	4
Singapore	4	Taiwan	4	Macau	4
Philippines	4	Germany	3	Germany	3
Sri Lanka	2	Nigeria	3	Singapore	3
Germany	2	Italy	3	Philippines	3
Bangladesh	2	Singapore	3	U. A. Emirates	2
Australia	2	U. A. Emirates	2	Italy	2
Total for Others	91		104		91
Others not Listed	11		14		9
Grand Total	105		123		105

Source: BPS Statistics Indonesia

Table 10. Indonesian Cotton Fabric Exports (CY2002 – 2004)
HS Code 5208 – 5209

Export Trade Matrix					
Country	**Indonesia**				
Commodity	**Cotton Fabric**			**Units:**	**1,000 MT**
Time Period	**Jan - Dec**				
Exports for:	**2002**		**2003**		**2004**
U.S.	8	U.S.	8	U.S.	5
Others		Others		Others	
Hong Kong	10	Hong Kong	8	Italy	8
Japan	7	Italy	7	Bangladesh	7
Italy	5	Japan	7	Japan	7
Bangladesh	4	Bangladesh	5	Hong Kong	6
Cambodia	3	Germany	3	Turkey	3
Philippines	3	China	2	Germany	3
Belgium	3	Philippines	2	Belgium	2
Germany	3	Belgium	2	China	2
United Kingdom	3	Turkey	2	Sri Lanka	2
Turkey	2	United Kingdom	2	Philippines	2
Spain	2	Rep. of Korea	1	Malaysia	2
Sri Lanka	2	Sri Lanka	1	Cambodia	2
China	2	Thailand	1	Australia	2
Rep. of Korea	2	Malaysia	1	United Kingdom	1
Malaysia	2	Cambodia	1	U. A. Emirates	1
Thailand	1	Vietnam	1	Vietnam	1
Taiwan	1	Spain	1	Thailand	1
Australia	1	U. A. Emirates	1	Netherlands	1
U. A. Emirates	1	Taiwan	1	Korea	1
Netherlands	1	India	1	Canada	1
Total for Others	58		50		55
Others not Listed	13		16		11
Grand Total	79		74		71

Source: BPS Statistics Indonesia

Table 11. Indonesian Cotton Yarn Imports (CY 2002 – 2004)
HS Code 5204, 5205, and 5207

Export Trade Matrix					
Country	Indonesia			Units: 1,000 MT	
Commodity	**Cotton Yarn**				
Time Period	**Jan - Dec**				
Exports for:	**2002**		**2003**		**2004**
U.S.	3	U.S.	5	U.S.	5
Others		Others		Others	
Japan	17	Japan	22	Japan	19
Hong Kong	16	China	19	Hong Kong	19
Rep. of Korea	14	Hong Kong	17	Korea	11
China	11	Rep. of Korea	13	China	11
Taiwan	6	Malaysia	6	Taiwan	5
Malaysia	6	Sri Lanka	5	Sri Lanka	5
Nigeria	5	Philippines	4	Malaysia	4
Singapore	4	Taiwan	4	Macau	4
Philippines	4	Germany	3	Germany	3
Sri Lanka	2	Nigeria	3	Singapore	3
Germany	2	Italy	3	Philippines	3
Bangladesh	2	Singapore	3	United Arab Emirates	2
Australia	2	United Arab Emirates	2	Italy	2
Total for Others	91		104		91
Others not Listed	11		14		9
Grand Total	105		123		105

Source : BPS Statistics Indonesia

Table 12. Indonesian Cotton Fiber Imports (CY 2002 – 2004)
HS code 5208 and 5209

Import Trade Matrix					
Country	Indonesia			Units: 1,000 MT	
Commodity	**Cotton Fabric**				
Time Period	**Jan - Dec**				
Imports for:	**2002**		**2003**		**2004**
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
China	8	China	5	China	9
Batam Island*	7	Batam Island*	4	Hong Kong	2
Hong Kong	4	Hong Kong	3	Batam Island*	2
Rep. of Korea	2	Australia	1	Pakistan	1
Taiwan	2	Taiwan	0	Rep of Korea	1
Total for Others	23		13		15
Others not Listed	1		2		2
Grand Total	24		15		17

Source: BPS Statistics Indonesia
Note : *Batam Island is a Free Trade Zone in Indonesia, however according to BPS Statistics Indonesia, if products are shipped to Indonesia and being processed in Batam Islands, they are treated as imported products from abroad.

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